

News Release

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Enterprise Risk Management (ERM) Continues to Advance Among Insurers and Reinsurers, According to Guy Carpenter Industry Increasingly Recognizing the Value of Metric-Based Frameworks and Capital Models in Portfolio Evaluation

New York, October 27, 2009

The movement toward more robust enterprise-wide risk management (ERM) practices following the 2008 financial crisis has continued to gather pace among insurers and reinsurers through 2009, according to an updated study published today by Guy Carpenter & Company, LLC. The report, *Update: Risk Profile, Appetite, and Tolerance: Fundamental Concepts in Risk Management and Reinsurance Effectiveness*, available at www.gccapitalideas.com, concludes that (re)insurers are increasingly disclosing their metric-based risk tolerances which are used as frameworks for their capital models as key tools in their risk management arsenal.

In the six months since Guy Carpenter's initial *Risk Tolerance Benchmarking* study, published in April 2009, rating agencies have accelerated their emphasis on ERM-related disciplines, with the goal of greater transparency. At the same time, shareholders and boards of directors have increased their calls for more effective corporate governance through improved quantification and evaluation of risk and more efficient deployment of capital.

Guy Carpenter's ERM study, using publicly available data, identifies information from 12 (re)insurance companies domiciled in Europe, six in the United States, nine in Bermuda and eight in the Asia-Pacific region.

RISK TOLERANCE

- Public disclosure of companies' risk tolerances remains somewhat limited.
- Companies have generally continued to increase disclosure related to their method and manner of establishing risk tolerance, but not the resultant amount or implied level of capital adequacy.
- The most prevalent disclosed risk tolerance methods continue to be Value at Risk (VaR) and stress testing.

ERM STRUCTURE

- In most regions, there has been little change in the level of disclosure of ERM "structure" characteristics, such as the appointment of a Chief Risk Officer (CRO) or the establishment of new reporting relationships or lines.

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- In Bermuda the level of structural disclosure has increased, with Bermuda companies now relatively close to European companies in their level of structural disclosure.
- Asia-Pacific and the United States continue to lag behind their European and Bermudian peers.

CAPITAL ALLOCATION AND MODELLING METHODS

- Driven by Solvency II, the disclosure of capital allocation and modeling method at the group level continues to be most prevalent among European (re)insurers.

DISCLOSURE BY COMPANY TYPE

- There continues to be little variance between insurers and reinsurers regarding the overall quality of disclosure.
- Combined operations that include both insurance and reinsurance within their corporate structures tend to provide greater detail in disclosures and descriptions of the risk and capital models for their insurance, market/asset and credit risk.

QUOTES

Susan Witcraft, Managing Director, Guy Carpenter & Company, LLC

“Across the industry, we are seeing greater understanding of the basic concepts of enterprise-wide risk and a growing consensus that ERM is a critical component in making strategic business decisions and more effectively deploying capital. With the continued rise of metric-based frameworks, companies are becoming better positioned to respond to internal and external questions about risk and capital while increasing their internal efficiency and maximizing returns.”

Iain Boyer, Chief Administrative Officer of Americas Broking Operations, Guy Carpenter & Company, LLC

“The combination of regulatory, capital market and legislative influences that we noted in our April briefing continues to exert pressure on management to better recognize, quantify and manage risk. As we emerge from the financial crisis, staying apprised of the latest disclosure trends, capital models and ERM methodology will be critical to success in a rapidly changing marketplace.”

LINKS/URLs

Update: Risk Profile, Appetite, and Tolerance: Fundamental Concepts in Risk Management and Reinsurance Effectiveness

<http://www.gccapitalideas.com/2009/10/27/update-risk-profile-appetite-and-tolerance-fundamental-concepts-in-risk-management-and-reinsurance-effectiveness/>

TAGS/KEYWORDS

Guy Carpenter, enterprise risk management, ERM, capital allocation, risk tolerance, Solvency II

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Guy Carpenter & Company, LLC is the world's leading risk and reinsurance specialist and a part of the Marsh & McLennan Companies. With over 50 offices worldwide, Guy Carpenter creates and executes reinsurance solutions and delivers capital market solutions* for clients across the globe. The firm's full breadth of services includes line of business expertise in

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